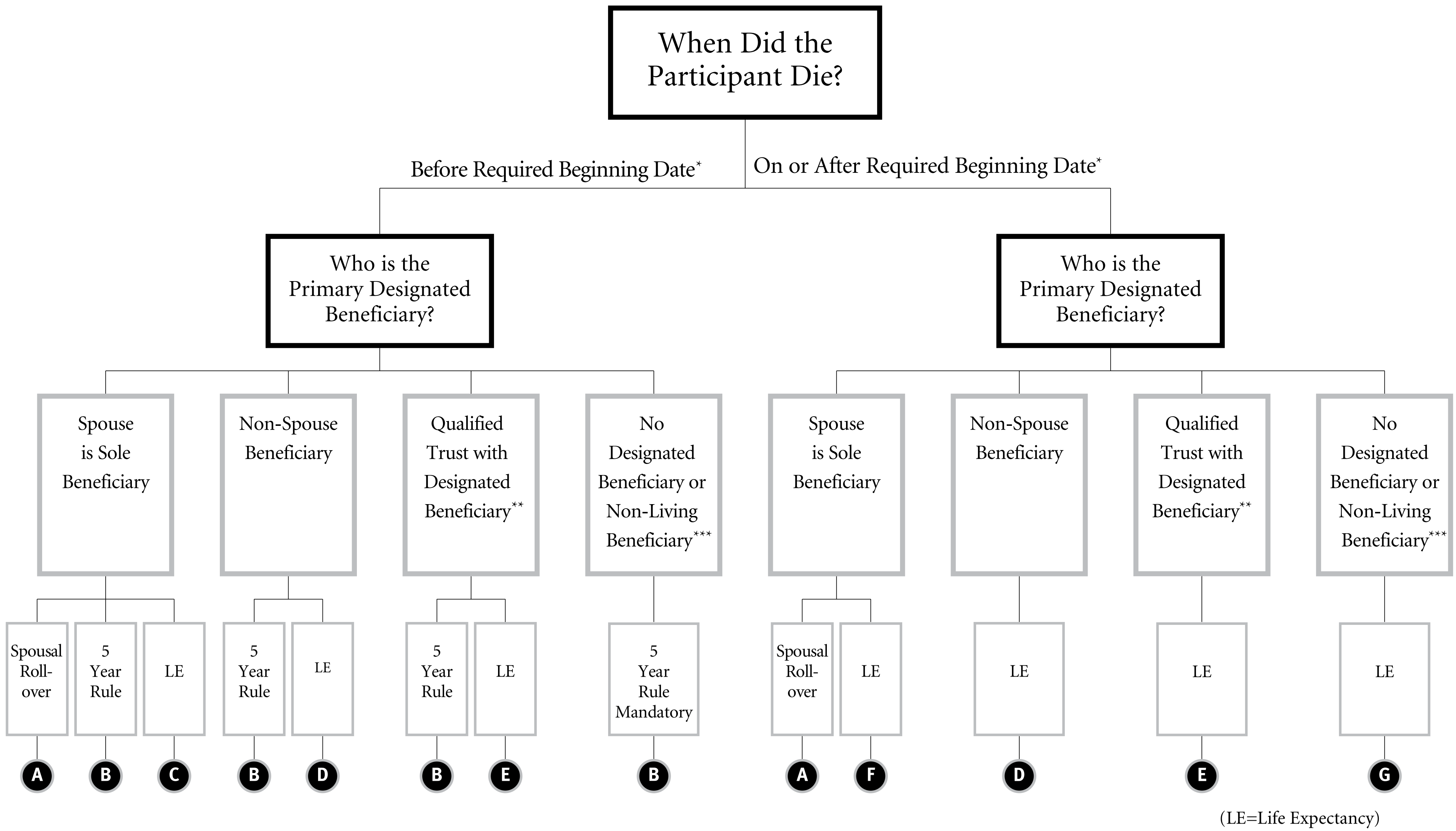
Beneficiary Options

Understanding Your Beneficiary Distribution Options: Qualified Retirement Plans and Tax-Deferred IRAs

We want to help protect your savings by giving retirement plan participants and their beneficiaries the right tools to make informed decisions regarding their distribution options.

- This beneficiary chart applies to tax-deferred retirement plans, including Traditional, SIMPLE and SEP IRAs, 403(b) Tax Sheltered Annuities, 401(a) qualified retirement plans and 457 plans. 401(a) qualified retirement plans include, but are not limited to: profit sharing, stock bonus, target benefit, money purchase and 401(k) plans. This beneficiary chart does not apply to Roth IRAs or non-qualified annuities.
- **NEW Beginning in 2007, changes made by the Pension Protection Act of 2006 created more options for non-spouse beneficiaries of qualified plan assets. A non-spouse beneficiary (i.e. a child, grandchild or unmarried partner) who inherits assets from a qualified retirement plan (i.e. 401(k), profit sharing, stock bonus, etc.) may transfer those assets directly to an inherited IRA. The non-spouse beneficiary must then begin receiving payments from the inherited IRA. The beneficiary may receive payments over his/her lifetime ("stretch"), based on life expectancy tables provided by the IRS. The transfer of assets must go directly from the retirement plan to the IRA. The IRA must be titled as an inherited IRA in the name of the deceased plan participant. For example: "Mom IRA (Deceased January 10, 2007) For the Benefit Of, Daughter." A non-spouse beneficiary cannot treat the IRA assets as his/her own IRA and contribute his/her own assets to it.**
- **Previous rules allowed for the non-spouse beneficiaries to receive lifetime payments of qualified plan assets. However, many plans did not provide for the administration of this option and required a lump sum payment. The 2007 changes allow plan assets to be rolled over to an inherited IRA after the death of the participant. (Qualified plans are not required to allow for rollovers to an inherited IRA. Check with the plan administrator to determine what options the plan provides to non-spouse beneficiaries.)**
- Under the IRS regulations, the designated beneficiary is not determined until Sept. 30 of the calendar year following the year in which the participant dies. Therefore, a participant can change his/her designated beneficiary after the Required Beginning Date without any negative consequences. Further, with the use of disclaimers or cash-outs, a participant's designated beneficiary may be changed after the participant's death. This provides greater flexibility with distribution planning than was allowed under the former regulations.
- Beneficiaries of qualified retirement plans or IRAs may always receive their distribution in a lump sum.
- If the participant has multiple beneficiaries, and the account or benefit has been divided into separate accounts or shares for each beneficiary by Sept. 30 of the year following the year of the participant's death, then each designated beneficiary may use his/her own age to determine life expectancy. If not, all designated beneficiaries must use the life expectancy of the oldest remaining primary beneficiary. The beneficiary chart assumes that separate accounts will be set up before the deadline.



THIS GUIDE IS DESIGNED TO

1 Educate participants and beneficiaries on available distribution options for retirement plan assets.

2 Guide plan participants and beneficiaries through the complex options of retirement plan asset distributions.

3 Highlight the applicable rules regarding the distribution of benefits under qualified retirement plans and tax-deferred IRAs (Traditional, SEP and SIMPLE).

A Spousal Rollover

Spouse beneficiaries who are the primary beneficiary may roll over or transfer the decedent's assets to his/her own IRA. Beginning Jan. 1, 2002, a surviving spouse beneficiary who participates in his/her own qualified retirement plan, 403(b) plan or 457 plan may roll over distributions from the deceased spouse's plan to his/her own plan, if that plan accepts such rollovers. The decedent's Required Minimum Distribution (RMD) may not be rolled over or transferred.

On becoming a new owner, a spouse beneficiary may name his/her own beneficiaries and delay receiving RMD payments until reaching age 70½. If the surviving spouse is already age 70½ or older, RMD payments must begin by Dec. 31 of the year following the year of the participant's death. Life expectancy is determined by the Uniform Lifetime Table for the spouse beneficiary, using his/her age in each distribution year.

If the surviving spouse dies before the year the original participant would have reached age 70½, the spouse is treated as the owner/participant and a succeeding designated beneficiary must be determined by Sept. 30 following the year of the spouse beneficiary's death. The succeeding designated beneficiary may then receive payments using either the 5-year rule, life-expectancy payments for non-spouse beneficiaries, or life-expectancy payments for non-living beneficiaries, whichever applies. Payments must begin no later than December 31 of the year following the year in which the spouse beneficiary died.

If the surviving spouse dies after the year the original participant would have reached age 70½, the single-life-expectancy factor of the surviving spouse will be used during the year of death. For each subsequent distribution year, that life-expectancy factor will be reduced by one.

B 5-Year Rule

There is no annual required distribution. However the entire account balance must be withdrawn by the end of the calendar year containing the fifth anniversary of the participant's death.

C Life-Expectancy Payments

Spouse beneficiaries may delay the receipt of life-expectancy payments until the year the original participant would have reached age 70½. From then on, life expectancy payments must begin. In these situations, life expectancy is determined by the Single Life Table for the spouse beneficiary, using his/her age in each distribution year.

D Life-Expectancy Payments

The first life-expectancy payment must be received by Dec. 31 of the year following the year of the participant's death. Life expectancy is determined by the Single Life Table for the designated beneficiary, using his/her age in the year following the participant's death. For each subsequent distribution year, that life-expectancy factor will be reduced by one. This is now the default option for non-spouse beneficiaries.

If the participant died during his/her 70½ year or later, a RMD must be received during the year of the participant's death. To determine the RMD, use the participant's age and corresponding life-expectancy factor from the Uniform Lifetime Table, Single Life Table, or Joint and Last Survivor Table, whichever method the participant was using prior to death.

E Life-Expectancy Payments

The first life-expectancy payment must be received by Dec. 31 of the year following the year of the participant's death. Life expectancy is determined by the Single Life Table for designated beneficiaries of the trust, using the age of the oldest beneficiary of the trust in the year following the participant's death. For each subsequent distribution year, that life-expectancy factor will be reduced by one.

If the participant died during his/her 70½ year or later, a RMD must be received during the year of the participant's death. To determine the RMD, use the participant's age and corresponding life expectancy factor from the Uniform Lifetime Table, Single Life Table, or Joint and Last Survivor Table, whichever method the participant was using prior to death.

F Life-Expectancy Payments

A RMD must be received during the year of the participant's death using the participant's age and corresponding life-expectancy factor from the Uniform Lifetime Table or Joint and last Survivor Table (for participants with spouse beneficiaries more than 10 years younger as the sole beneficiary).

Beginning in the year after the participant's death, life expectancy for spouse beneficiaries who are the sole, primary beneficiary is determined by the Single Life Table. The spouse beneficiary may choose to use the Participant's life expectancy or the spouse beneficiary's, whichever is longer. The spouse beneficiary may switch from an initial selection of whose life expectancy to use. For each distribution year, the spouse beneficiary's actual age will be used to determine life expectancy.

After the death of a spouse beneficiary, life expectancy will continue to be recalculated for the year of death. For each subsequent distribution year, the life-expectancy factor of the spouse beneficiary's age reached during the year of his/her death will be reduced by one.

G Life-Expectancy Payments

A RMD must be received during the year of the participant's death using the participant's age and corresponding life-expectancy factor from the Uniform Lifetime Table.

The first life-expectancy payment must be received by Dec. 31 of the year following the year of the participant's death. Life expectancy is determined by the Single Life Table using the age of the deceased participant during the year of death. Beginning in the year following the year of the participant's death and each year thereafter, that life-expectancy factor will be reduced by one.

* The Required Beginning Date (RBD) is generally April 1 following the year the participant turns 70½. However, if the employee is a participant in a 401(a) or 403(b) retirement plan and less than a 5 percent owner of the business sponsoring the plan, the RBD may be delayed until April 1 following the year of retirement.

** If certain requirements are met, the underlying beneficiaries of a trust may be treated as the designated beneficiaries of the participant. In order to qualify, a trust must: (1) be valid under state law; (2) be irrevocable or become irrevocable upon the participant's death; (3) have identified beneficiaries listed; and (4) be provided to the plan administrator or IRA trustee, custodian or issuer.

*** When no designated beneficiary is recorded, the participant's estate becomes the designated beneficiary. A non-living beneficiary applies when a beneficiary with no life expectancy, such as an estate, a non-qualified trust or a charity, is the beneficiary.

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